

Top Secret

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NATIONAL INTELLIGENCE DAILY CABLETuesday 7 November 1978CG NIDC 78/260

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NATIONAL SECURITY INFORMATION

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CIA LATE ITEM

IRAN: Situation Report

25X1 [redacted] //Tehran was generally quiet yesterday after the Shah appointed a military government, but there were some antigovernment demonstrations. [redacted]

25X1 [redacted] Most businesses in the city remained closed, and the press appears to be under strict control. In Esfahan, scattered violence broke out [redacted]

25X1 [redacted] Some opposition leaders in Tehran were cautiously optimistic about the Shah's speech in which he named General Azhari as Prime Minister. One opposition figure expressed the hope that military rule would soon give way to a coalition government. [redacted]

25X1 [redacted] Supporters of exiled extremist Muslim leader Khomeini, however, continue to denounce the new government, labeling Azhari a stooge of the British and Americans. Spokesmen of the opposition National Front announced over French radio that they will not cooperate with the new government or negotiate with the Shah.

25X1 [redacted] Eight of the 11 ministers in the new cabinet are military men. Senior civil servants will head several ministries until a full cabinet is announced. About a third of the cabinet, including Foreign Minister Afshar-Qasemlu, are holdovers from the previous government.

25X1 [redacted] A major test of the new government's initial effectiveness will be its ability to convince strikers to return to work. In the vital oil industry, the strike has widened to include support workers. In most cases, striking workers have shifted from economic to political issues. Their demands include an end to the Shah's rule, the release of political prisoners, and the abolition of martial law. The xenophobic character of the protests has grown, with oil, telecommunications, and airline employees calling for the firing of expatriate employees.

25X1 [redacted] Kuwait, perhaps the most likely of Iran's neighbors to be affected by political turbulence in Iran, is worried about the possible eclipse of the Shah, whom it regards as a major force for stability in the Persian Gulf. [redacted]

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National Intelligence Daily Cable for Tuesday, 7 November 1978.

The NID Cable is for the purpose of informing senior US officials.

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AUSTRALIA: Defense Spending

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[REDACTED] //The Australian Government has abandoned the five-year defense development plan that it announced in 1976. This is the first official acknowledgment that the country's economic condition will not permit attainment of the midrange modernization objectives of the plan.//

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[REDACTED] //Defense Minister Killen, in a speech to Parliament on 24 October, acknowledged that the objectives of the development plan, which were formalized in a defense white paper in November 1976, would not be met. Killen admitted that defense spending has grown in real terms by only about 1 percent annually, compared to the 5 percent specified in the plan, but he described the slowdown in growth as temporary.//

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[REDACTED] //Under the plan, the defense budget was allotted a five-year expenditure of \$12 billion--US \$15 billion at 1976 prices--that would be insulated from inflation. The 5-percent annual real increase in spending was to be guaranteed and was judged to reflect a minimum level necessary for modernization and development of Australia's defense capabilities.//

25X1

[REDACTED] //The impact of the new policy on the defense establishment will be considerable. Killen announced that the Army would not be allowed to expand from its present strength of 31,900 to the 1981 ceiling of 34,000 envisaged in the development plan. Selection of a replacement frontline fighter for the Mirage III is to be deferred at least until 1980, and plans for extending the useful life of the Mirages suggest that further deferral of the replacement decision is likely.//

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[REDACTED] //Backtracking on earlier government promises to support the hard-pressed Australian defense industries, Killen indicated that the domestic shipbuilding and aircraft industries could not expect subsidies when foreign procurement was cheaper. The level of local procurement has rarely exceeded 3 percent of the defense budget--the allotment for last year was \$108 million--but even this now seems to be in jeopardy.//

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[REDACTED] //Killen's speech is an official acknowledgment that even defense modernization is not exempt from the government's austere spending policy--a key element in Australia's economic recovery strategy. Nevertheless, the government apparently intends to honor current modernization commitments, including the acquisition of three frigates, maritime surveillance aircraft, transport aircraft from the US, and Rapier surface-to-air missiles from the UK.//

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[REDACTED] //Inflation and the absence of an immediate military threat will delay any additional developments. [REDACTED]

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BRIEFS

USSR

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[REDACTED] //The USSR will continue to import substantial amounts of grain to satisfy livestock feed requirements and to rebuild depleted stocks, despite Soviet Premier Kosygin's announcement on Saturday that the Soviet grain crop would be greater than 230 million tons. Unless the record harvest is far in excess of 230 million tons, we expect the Soviets to purchase some 15 million tons of grain for delivery between 1 October 1978 and 30 September 1979.//

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[REDACTED]

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Cuba

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[redacted] Cuba is undertaking a massive expansion of its infant citrus industry aimed initially at boosting earnings from member countries of the Soviet-dominated Council of Mutual Economic Assistance through greater export sales. Realization of production goals would enable Cuba by the mid-1980s to compete with the US for the rank of second leading exporter of fresh citrus after Spain and to capture at least half of CEMA's rapidly growing market for citrus. The CEMA countries--now supplied mainly by Mediterranean producers--will prefer Cuba as a supplier to save on hard currency.

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[redacted] Cuban citrus development could have a substantial impact on the US citrus industry. Even if Cuba failed to gain access to the US market, the US industry could be hurt by Cuban sales to third country markets, particularly the EC. [redacted]

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UNCTAD

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[redacted] The three-week UNCTAD negotiating conference for a new International Wheat Agreement convened in Geneva yesterday. Since the last conference in February and March, the interim committee has come to terms with some of the most contentious issues, and chances are good that the conference will make substantial progress in negotiating a new agreement. The conference is of prime importance to developing countries because of its implications for food security, and to wheat exporters because of its price stabilization goal.

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[redacted] The conference will consider a nationally held, internationally coordinated system of wheat reserve stocks that will stabilize prices and assure adequate supplies as well as a food aid program designed to channel wheat through both multi-lateral and bilateral aid programs. The principal issues at the conference will be:

-- The price level at which to accumulate and release reserves.

-- The total size of reserves and individual country shares.

-- What assistance will be made available to developing countries to assist them to hold reserves.

-- A US proposal providing for an increase in food aid in times of substantial production shortfalls in developing nations as a whole.

USSR

Soviet press reports state that oil--including gas condensate--production through September was up 5 percent over the same period in 1977; we estimate the increase at 4.4 percent. Output for the year is not likely to exceed 11.4 million barrels per day, about 100,000 barrels per day below plan. Much of the shortfall is from new fields in West Siberia that were to supply nearly 45 percent of Soviet planned oil output. Output is also lagging in the Perm, Emba, Mangyshlak and offshore Caspian Sea producing regions, primarily because new fields have not been brought on stream to compensate for declining production in older fields.

Soviet gas output this year should reach the target of 370 billion cubic meters, although growth is slowing.

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